

**American Red Cross Response  
To December 29, 2005 Letter from  
Senator Charles E. Grassley**

**PART I**

**A. Board Governance**

***Question 1: Please provide copies of all board minutes, including board minutes of any subgroup (such as the Executive Committee) of the board, for the last five years. Please provide a list of all material provided to board members for the last five years.***

***Answer 1:*** Consistent with our past responses to requests from the Senate Committee on Finance, we are providing copies of agendas of the meetings of the Board of Governors (Board) and of any Committee or Subcommittee of the Board during the American National Red Cross' (Red Cross) last five fiscal years ended June 30, 2001, 2002, 2003, 2004, and 2005 and for the first six months of fiscal year 2006 (June 30 – December 31, 2005.) We have also enclosed, as Attachment A, a list of all materials provided to Board members from the Red Cross Board Office during this period.

***Question 2: Please indicate for all board meetings and subgroup meetings of the board the attendance -- who attended the entire meeting, who attended part of the meeting, who was absent -- for the last five years. Please indicate what board members are elected by chartered units, members-at-large and Presidential appointees. In addition, for Presidential appointees please provide the attendance information for the last ten years.***

***Answer 2:*** In response to your request, we have created charts reflecting attendance at Board meetings as well as meetings of Board Standing Committees and have identified each Board member based on whether he or she is elected by chartered units, a member-at-large, or a Presidential appointee. See Attachment B. In the case of Board members elected by chartered units and members-at-large, we have provided attendance information for the last five fiscal years; in the case of Presidential appointees, we have provided attendance information for the last ten fiscal years (July 1, 1995-June 30, 2005).

***Question 3: Please provide copies of all communications between board members and the President and CEO for the last five years. This would include e-mails, faxes, memorandums, etc.***

***Answer 3:*** We are providing copies of communications that we have been able to identify between Board members and the President and Chief Executive Officer (CEO) during the last five fiscal years. Additional communications identified as responsive to this request will be provided to the Committee on Finance in a supplemental response.

**Question 4:** *Please provide a detailed discussion of your office - the number of staff that report to you, their duties and salaries. Please compare this to your predecessor. Please provide the number of hours per week that you spend performing your duties as Chairman and provide a detailed discussion of your work and duties as Chairman. Please provide a copy of an organization chart for the Red Cross including reporting chains (including contacts and reporting chains from chapters up into headquarters).*

**Answer 4:** The starting point in responding to your request for a detailed discussion of the office of the Chairman is with an overview of the responsibilities of the office as set forth in the Congressional Charter (Charter) and the Bylaws of the Red Cross (Bylaws). Below, we review these responsibilities and describe the activities, duties, functions, and staffing requirements for the current Chairman.

### **Responsibilities of the Chairman Outlined in the Charter and Bylaws**

Under Section 4(a)(1) of the Charter, one of the eight governors appointed by the President of the United States is designated "to act as the principal officer of the corporation with the title and functions provided in the bylaws." The Charter also provides that the President of the United States can fill a vacancy in the office of the principal officer of the Corporation (Section 4(b)(2)) and that, while the Board can appoint and remove, or provide for the appointment and removal of, officers and employees of the corporation, the Board's power does not extend to the appointment or removal of the "principal officer of the corporation." (Section 4(c)(2) of the Charter.)

Section 6.1(a) of the Bylaws provides that the person designated by the President of the United States to act as the principal officer of the Corporation is the Chairman of the Red Cross. The Bylaws also refer to this officer as the Chairman of the Corporation. See, e.g., Sections 2.3 and 6.1(b) of the Bylaws.

The principal responsibilities and functions of the Chairman of the Board are set forth in Section 6.1(c) of the Bylaws, as follows:

- The Chairman shall be the representative of the Corporation in its relations with public and private agencies and the public at large.
- The Chairman shall be responsible for communicating to the President and CEO of the Corporation the policies and programs adopted or approved by the Board and for reporting to the Board the conduct and management of the affairs of the entire organization.
- The Chairman shall serve as chairman of the Board and shall also preside over the Executive Committee of the Board.
- The Chairman shall be a member, *ex officio*, of all other Committees appointed by the Board, except the Audit Committee.

Additional responsibilities of the Chairman under the Bylaws include the following:

- The Chairman nominates the President and CEO of the Corporation (Section 6.3 of the Bylaws).
- The Chairman consults with the Governance Committee of the Board regarding the slate of leadership positions, Committee and liaison assignments to be filled; the annual review of the President and CEO (which is conducted by the Governance Committee and discussed with the Executive Committee and the Board); and the compensation of the President and CEO (Section 3.8 of the Bylaws).
- The Chairman shall raise with the President of the United States any conflicts with Governors appointed by the President which the Chairman feels are detrimental to Board or the Red Cross (Section 2.10 of the Bylaws).
- The Chairman or his or her designee shall be chairman of each National Convention and shall appoint a vice chairman of each National Convention (Section 7.5 of the Bylaws).
- The Chairman is authorized to direct the Secretary to call a special meeting of the Board (Section 2.14 of the Bylaws).
- The Chairman shall appoint two of the members of the Committee on Nominations in connection with the National Convention (Section 7.6 of the Bylaws).

Under Section 4(b)(1) of the Charter and Section 6.1(c) of the Bylaws, the term of the Chairman of the Board is three years.

#### **Activities of the Current Chairman of the Board**

One of the most important responsibilities of the Chairman of the Board is to prepare for and chair all meetings of the Board and the Executive Committee. As noted, the Chairman is also an *ex officio* member of all Board Committees (except the Audit Committee) and prepares for and attends Board Committee and Subcommittee meetings to the extent possible. Generally, the Board has three regular meetings a year, each held over the course of two days, beginning with Standing Committee and/or Subcommittee meetings and ending with a meeting of the full Board. In addition to the Executive Committee, the Board Standing Committees include the Audit Committee, the Biomedical Services Committee, the Disaster and Chapter Services Committee, the Finance Committee, the Governance Committee, the International Committee, and the Public Support Committee. From time to time, based on the business circumstances or the occurrence of natural or manmade disasters, the Board, the Executive Committee, or other Committees and Subcommittees may hold special meetings, generally by a telephonic conference call.

Since her appointment by President Bush in June 2004, Bonnie McElveen-Hunter, the current Chairman of the Board, has chaired five in-person and telephonic meetings of the Board and ten in-person and telephonic meetings of the Executive Committee of the Board. A typical schedule for in-person meetings of the Board, and related meetings of the Committees and Subcommittees of the Board, including the Executive Committee, is set forth at Attachment C to this response.

The Chairman's responsibilities also include chairing (or designating a chair for) the annual National Convention of the Red Cross. The National Convention, a two day annual event attended by some several hundred Red Cross chapter and blood services region employees and volunteers, is held to provide updates on key Red Cross corporate policies and programs, to present training and practical workshops on fundraising and Red Cross services, to elect national volunteer leaders such as the members of the Board, and to review and vote on any proposed resolutions to the Board for policy changes. During the Red Cross National Convention the Chairman, who usually serves as the Chairman of the Convention, participates in the following activities: (a) officially opens the National Convention, (b) opens the General Business Session, (c) attends the open hearing on Resolutions, (d) opens the Annual Business Meeting, and (e) adjourns the Convention following the Closing General Session. During the Convention, the Chairman also attends numerous meetings and breakout sessions hosted by various departments of the Red Cross. There is also a "meet and greet" session that the Chairman hosts with the President and CEO, which allows them to meet and personally thank the many employees and volunteers who devote their support and time to the Red Cross. There has been one National Convention since Ms. McElveen-Hunter has been Chairman.

In between Board and Executive Committee meetings, the Chairman of the Board has many fundraising meetings with donors, meetings with Members of Congress, the Federal Executive Branch, and State Governors, visits to Red Cross chapters and blood services regions, press and media interviews, international meetings with the International Federation of Red Cross and Red Crescent Societies and the International Committee of the Red Cross, and other special events on behalf of the Red Cross. In support of the Board and Committee meetings, the Chairman of the Board has numerous meetings and telephone conference calls with the Standing Committee chairs and members of the Board and attends to written work in carrying out her responsibilities.

To enable her to meet personally with the President and CEO and other senior officers and employees of the Red Cross, to attend meetings with various government officials on matters of Red Cross business, and otherwise to carry out the responsibilities of the position, Ms. McElveen-Hunter spends a significant amount of time in Washington, D.C., where she maintains a personal residence and works out of the Chairman's office at the Red Cross headquarters. The actual time spent in Washington, D.C. each month varies depending upon the organizational needs and priorities (the time increases, for example, during major disasters). During these visits, virtually all of her time during normal business hours (and frequently into the evenings) is devoted to the business affairs of the Red Cross. In addition, when she is not physically present in Washington, D.C., the Chairman participates in numerous telephone conferences, and e-mail exchanges and attends meetings and events throughout the United States related to Red Cross matters.

### **Staff of the Chairman of the Board**

The Office of the Chairman includes two employees -- an Executive Director and a Senior Administrative Assistant. The combined salary expense for these two positions is \$225,030. The prior Chairman of the Board had one employee directly supporting him, with additional administrative support from the office of the Board.

The Executive Director serves as the primary point of contact between the Chairman and Red Cross management and liaises with, among others, the President and CEO, the Departments of Communication and Marketing, Development, the General Counsel and Corporate Secretary, the Chief Financial Officer, and the Executive Vice Presidents of Chapter and International Operations, Biomedical Services, and Government Affairs, among others. The Executive Director directs, plans, and organizes special projects, conferences, and program events, and develops issue briefings for the Chairman of the Board. The current Chairman is actively engaged in fundraising on behalf of the Red Cross, and the Executive Director directly supports the Chairman in actively identifying, cultivating, soliciting, and maintaining relationships with potential financial donors to the Red Cross. The Executive Director follows trends affecting the Red Cross operating and fundraising environments, briefs the Chairman as appropriate, and maintains extensive external interaction with prospective major donors, government officials, corporate executives and international dignitaries in support of the Chairman of the Board.

The Senior Administrative Assistant coordinates all activities and communications in the Chairman's Office. This includes maintaining the Chairman's schedule and coordinating appointments, travel, and visits to field or operating units. The Senior Administrative Assistant prepares memos, reports, and correspondence for the Chairman's signature, and performs various research and analytical tasks on behalf of the Chairman. She also acts as a receptionist for visitors to the Chairman's Office, and reviews and screens all incoming calls. She works directly with the Executive Director and supports her in the administrative and business needs of the office.

As requested, we are providing the organizational chart for the Red Cross and an organizational chart that depicts the reporting structure from chapters up through national headquarters.

***Question 5: When did the board last do a self-evaluation of the board's work and performance? Please provide a copy of that evaluation. When does the board intend to do another evaluation?***

***Answer 5:*** The Board annually conducts a self-evaluation of its work and performance. The most recent self-evaluation was conducted in September 2005. At the Board's October 2005 strategic retreat, it reviewed the results of the 2005 self-assessment. As requested, we are providing you with a copy of the self-assessment results for fiscal year 2005. The next Board self-evaluation will occur in September 2006.

***Question 6: When has the board last conducted an evaluation of the effectiveness of the American Red Cross operations? Please provide a copy of the evaluation. When does the board intend to do another evaluation?***

***Answer 6:*** The Red Cross Board conducts a regular evaluation of the effectiveness of Red Cross operations against the organization's strategic plan. Progress against the strategic plan is measured through the use of a strategic scorecard, which is prepared by management and reviewed by the Board.

The Red Cross' most recent strategic plan was adopted in May 2003. In October 2005, the Board received and considered the fiscal year 2005 strategic scorecard results during its regular meeting. As requested, we are providing a copy of the strategic scorecard evaluation. In October 2006, the Board will receive and consider the fiscal year 2006 strategic scorecard results.

***Question 7: It is my understanding that when Ms. Marty Evans, the former President and CEO of the Red Cross, first took her position at the Red Cross she sought to initiate a series of reforms in governance. Please discuss these reforms and the board's response to these efforts by Ms. Evans. Please provide a copy of Ms. Evans memorandum to you "Guiding Principles for a Successful Board-Management Partnership." Please provide a copy of any response you, your staff, or other board members made to this memorandum.***

***Answer 7:*** As previously agreed our response to this question will be forthcoming.

***Question 8: A Red Cross spokesman states that Ms. Evans's departure was due to coordination and communication issues with the board. The American public deserves more than a papering over of the reasons for her departure. If coordination and communication is at issue, then please provide a detailed discussion of what exactly were these issues. Please provide all written memos, communications, email, etc. that support these concerns cited by the Red Cross spokesman that justify this explanation of Ms. Evans's departure.***

***Answer 8:*** As previously agreed our response to this question will be forthcoming.

***Question 9: Please provide a copy of all internal audits (both completed and in draft form) for the last five years.***

***Answer 9:*** We are compiling our response which will be forthcoming as previously agreed.

***Question 10: Please provide a discussion of whether you believe the current governance and board structure is appropriate and adequate- including any proposed changes to the law.***

***Answer 10:*** The Board considers this to be a very significant question for both the Red Cross and the American people. The Board wants to provide you and the Committee on Finance with the most informed and thorough response. As you know, the Red Cross is holding a summit on corporate governance practices to be convened by the Board in conjunction with the National Association of Corporate Directors in March 2006. At that summit, the Board members will

seek guidance and best practices from a broad array of experts and organizations on nonprofit corporate governance practices and related matters. Following the summit, the Board members will review the dialogue, papers, and recommendations, and coupled with their own experience and fiduciary and other duties as Board members, will provide an additional response, including any recommended changes deemed appropriate.

We are providing the Committee on Finance today with, "*The Governance Structure of the American Red Cross*," a white paper that discusses the current governance system in the Red Cross. This overview, enclosed as Attachment D, describes the history of the governance framework on the Red Cross, the governance structure dictated by federal statute, and the governance practices and policies voluntarily adopted by the Board. In addition, we will report to the Committee on Finance with respect to any Board recommendations for governance change following the summit.

***Question 11: Please provide me a detailed discussion of how the board will proceed in finding a new President and CEO of the Red Cross and the qualifications that the board is seeking. Please advise who is serving on the Search Committee.***

***Answer 11:*** Finding the best qualified individual to serve as President and CEO of the Red Cross is the Board's top priority. The Board has formed a Search Committee to conduct the search for the next President and CEO, and has retained Heidrick and Struggles (Heidrick), a nationally recognized executive search firm, to assist in this effort. We are very grateful that Heidrick and Struggles is contributing its services on a pro bono basis, and its Chairman, Gerry Roche, will be personally engaged in the search. The role of the Search Committee is to identify and define key selection criteria, to interview finalist candidates, and to recommend a candidate to the Board.

The Search Committee held its first meeting on January 19, 2006. While the Committee focused principally on the skills, duties and qualifications required for the next President and CEO of the Red Cross, it also discussed the following issues: the mission and the vision of the organization for the next several years, future challenges to the organization, the identification and interview process of key stakeholders in the search process, and the development of an outreach strategy to communicate to Red Cross employees and volunteers throughout the search process. The Search Committee's next step is to create a formal position specification document for presentation to the Board. We will provide this document to the Committee on Finance after it has been developed and approved by the Board. Once the selection criteria are finalized, the position will be publicized and Heidrick will begin the process of identifying and screening potential candidates and referring to the Search Committee for further consideration those who meet the criteria.

The Board has not set a fixed deadline for completion of the search. We understand that most President and CEO searches of this nature take between six and twelve months, and the Board is committed to taking the time needed to find the right person for this critical position. In the meantime, Jack McGuire, Executive Vice President of Biomedical Services, is serving as the interim President and CEO, and the rest of the senior management team remains intact. This ensures the necessary organizational continuity and stability, as the Red Cross focuses on

reviewing and strengthening its disaster responsiveness programs based on lessons learned from the Gulf Coast hurricanes, as well as maintaining the financial integrity of the organization and managing the blood services programs.

The Search Committee members include the following Board members: Gina Adams, Chris Allen, Sanford Belden, Steven Carr, Bill Gagliano, Ann Kaplan, Gregory Kozmetsky, Bruce LaBoon, Anna Maria Larsen, Rex Linder, Elaine Lyerly, Bonnie McElveen-Hunter (who serves as Chair of the Search Committee), Joseph Pereles, Ross Ogden, and Brian Skotko. The Search Committee also includes Edward Heidt, a former Board member who will serve as an outside volunteer advisor. Finally, the Committee will include three representatives to be selected from chartered units – two chapters and a blood services region.

## **B. Response to Disaster**

*Question 1: I have heard from charities and colleagues that a top concern has been the Red Cross' poor working relationship with leaders of local charities. However, these concerns were not made of other major charities, such as the Salvation Army. I would appreciate your response to this concern, and if you agree, what the Red Cross will do to address this matter in the future.*

*Answer 1:* The Red Cross has a long history of collaboration with other national, state, local and community-based organizations. It has acted as a leader in developing collaborative programs that are put into place in advance of disasters, which enable these groups to work together to respond to disasters. As discussed in more detail below, these efforts have included the establishment of the Coordinated Assistance Network (CAN), a collaborative venture of nonprofit organizations involved in disaster assistance, and the execution of formal "Statements of Understanding" with nonprofits involved in the provision of disaster assistance services that outline, in advance of disasters, how the organizations will work together to address community needs. The Red Cross also implemented a number of additional collaborative efforts with other nonprofit partners during the aftermath of the Gulf Coast hurricanes, which are described below. We believe that the characterization of the Red Cross' working relationship with local charity leaders as "poor" is not accurate. We note, however, that one of the lessons learned from the Gulf hurricanes is that there are many locally based nonprofit organizations (including some created on the spot) that are not traditionally identified with or involved in disaster assistance (and thus are not part of the Red Cross' existing collaborative network) but that are willing and able to be active partners in disaster assistance efforts where the magnitude of the need overwhelms the structures already in place. We acknowledge that the Gulf Coast hurricanes presented challenges in working with local charity leaders to best identify and deploy resources to meet community needs, and the Red Cross is working on a variety of initiatives, discussed below, to expand its commitment to collaborative partnerships so that it will be better able to coordinate the delivery of these resources in the future.

## **Mechanisms for Collaboration during the 2005 Hurricane Season and Beyond**

### ***National Voluntary Organizations Active in Disaster***

The Red Cross was a founding member of the National Voluntary Organizations Active in Disaster (NVOAD) in 1976 and has continually assumed a leadership role in supporting and promoting NVOAD's goals of ensuring collaboration among nonprofit organizations and government agencies active in disaster relief. A Red Cross national headquarters staff member is the current president of NVOAD's board of directors. NVOAD now has forty agencies as members at the national level and fifty-five state and local Voluntary Agencies Active in Disaster (VOAD). Red Cross representatives are active at both the national and local levels.

During the first weeks after Hurricanes Katrina and Rita, NVOAD hosted daily conference calls with national member organizations and state and local organizations located within the affected states. The Red Cross actively participated in these calls, which facilitated information exchange, assisted in determining needs, and enabled an inter-organizational ability to match resources with needs. The Red Cross continues to participate in these conference calls, which still occur on a weekly basis.

### ***The Coordinated Assistance Network***

The Red Cross was a leader in the creation of the CAN in 2003. CAN is a collaborative venture that includes the Salvation Army, the United Way of America, NVOAD, the Alliance of Information and Referral Services, and the New York-based agencies Safe Horizon and 9/11 United Services Group. This collaboration has helped to develop service delivery models and technologies that streamline client services, promote agency coordination and share client information among agencies while preserving confidentiality.

CAN currently has eleven national and seventy local signed participating agencies and its database contains more than three million client records. CAN now has 1,722 users (823 active) from more than 570 communities, and 2,301 agency resources offering 4,580 services.

### ***Katrina Aid Today/UMCOR Consortium***

Significant work continues to support the Katrina Aid Today/UMCOR (United Methodist Committee on Relief) case management consortium. This consortium will oversee up to 3,000 professional staff and volunteers who will assist 100,000 families displaced by Hurricane Katrina. Consortium members will use the CAN technology platform as their common data-sharing information system. Accordingly, CAN is participating in extensive case management user support training. Also, CAN is developing reports for relief agencies to assess services provided and to access information about location and other audit fields.

### ***Formal Statements of Understanding***

The Red Cross maintains Statements of Understanding (SOU) with almost one hundred organizations. These SOUs define the intent of the relationship between the Red Cross and each

organization and the methods through which these organizations work together. Key relationships, such as the agreement to work with the Southern Baptist Convention during disaster feeding operations at Red Cross shelters, allow the integration of resources and create the ability to provide disaster relief far beyond either organization's ability when working independently. Other examples are the numerous SOUs with national disability organizations to work together on addressing the needs of the disabled community during disasters.

### ***Ongoing Training and Staffing***

The Red Cross offers to our workers and supervisors a course titled ***Collaboration to Ensure Effective Service Delivery***. This course is designed to communicate and encourage positive working relationships with other organizations in disaster. Specific personnel are also assigned on relief operations to foster such coordination and find means for organizations to work together.

### **Continued Commitment to Collaborative Partnerships**

The Red Cross will continue to emphasize integrated action and mutual support among nonprofits as a key strategy for maximizing our society's ability to respond to catastrophic events. Our organization believes that more can be done to encourage collaboration and is committed to this direction. Specific initiatives are as follows:

- **Pre-planning** – In conjunction with the other NVOAD agencies, continue to foster state and local VOAD as the primary forum for agencies wishing to participate in disaster response. Pre-planning is absolutely essential to the success of agency coordination. These forums should serve to promote such preparedness.
- **Diverse Populations** – Grow our relationships with national and regional agencies serving diverse populations. The Red Cross historically serves those most vulnerable to disaster, and is committed to continuing our efforts to actively involve other agencies in service delivery and finding means for their participation.
- **Coordinated Assistance Network** – Continue to promote the joint delivery of services through CAN. Continue to train our chapters in the various mechanisms available for pre-disaster agreements with local agencies to deliver services and to provide appropriate material and financial support for their efforts.

***Question 2: The Red Cross is the lead charity for disaster relief. However, it is understandable that there are times when the Red Cross cannot reach certain populations that are in need of assistance. Often, it is local charities that fulfill this mission of disaster relief-responding to the needs of populations that the Red Cross is unable or incapable of assisting. Given the Red Cross' national presence and Congressional charter, what do you believe is the appropriate response of the Red Cross to such local charities that are providing disaster relief to families that the Red Cross is not in a position to provide relief? Under what circumstances will the Red Cross provide financial and material support to such local charities?***

**Answer 2:** The Red Cross believes that as part of carrying out our mission and fulfilling our Charter obligations, one of our responsibilities is to work actively with and support community organizations that are engaged in service delivery during disaster responses.

As discussed earlier above, the Red Cross has pre-existing agreements with many organizations that are activated when the need arises, and, in the wake of the Gulf Coast hurricanes, is reviewing the need to expand the use of these arrangements, as well as other mechanisms for collaboration. Through these agreements, the Red Cross and our community partners are able to define the potential scope of services that can be activated immediately when disasters hit. When disasters (such as the Gulf Coast hurricanes) arise that require services beyond what can be provided by the Red Cross and our community partners, the Red Cross, to the extent it has the means to do so, provides material and logistical assistance to non-Red Cross shelters with which it has no formal agreement. For example, during the response to the Gulf Coast hurricanes, the Red Cross also advocated to FEMA on behalf of other nonprofit responders to Hurricane Katrina victims. FEMA has since agreed to reimburse many of these organizations for appropriate disaster assistance expenditures. In addition, the Red Cross regularly refers donors to other local, national or international relief agencies as appropriate if donor interest does not match Red Cross program activities, or if the Red Cross cannot effectively use the gift, as is the case with many in-kind donations.

You have asked about the circumstances under which it would be appropriate for the Red Cross to provide financial and material support to local charities that participate in disaster assistance efforts. In the context of disaster assistance, the Red Cross views the delivery of essential services directly to disaster victims as our first and foremost responsibility. As discussed above, the Red Cross has pre-existing agreements with many other service organizations to assist in this service delivery function, and it provides financial and other assistance to these partner organizations. The Red Cross intends to expand the use of such pre-existing agreements to enhance our preparedness in the case of overwhelming disasters such as the Gulf Coast hurricanes. In addition, during the course of our disaster response, the Red Cross will continue to enter into less formal arrangements with community partners to share in the provision of services, particularly for special needs populations, and, where resources are available, it may provide financial and logistic assistance to such other partners.

Although the Red Cross views our role first and foremost as that of a direct service-provider and not as a grant maker, we believe that more can and should be done to include local community groups into relief operations, and to provide them with additional resources for services they render to disaster victims as part of the coordinated disaster relief effort. We are currently simplifying the mechanism and process for creating agreements that will facilitate a more expansive and effective involvement of local community organizations in the future.

**Question 3:** *It is my understanding from press reports that the Red Cross received donations of \$568 million for tsunami recovery and has spent \$167.6 million. Please explain what the Red Cross plans to do with the remaining funds - specifically the purpose for which these funds will be spent; when the funds will be spent; and, finally, how these expenditures are in keeping with the Red Cross' role and mission. My understanding is that the Red Cross has a 5-year plan for Tsunami relief - please explain (and give examples) how this is in keeping with*

*past Red Cross practice as I understand of responding to only the immediate aftermath of an emergency or disaster.*

**Answer 3:** Through December 31, 2005, the Red Cross has received a total of \$570.1 million for tsunami recovery. As of that date, we have spent \$169.3 million, which has covered:

- Emergency phase interventions including: food distributions, water storage units, vaccination campaigns, basic shelter, psychosocial activities, and household items such as tents, sleeping mats, hygiene kits and cooking utensil sets.
- The initiation of recovery phase activities as described in the Red Cross Plan of Action described below and published on our website in June 2005.

Over the course of the next six months we plan to spend \$86.3 million, bringing the total life of project (LOP) spending to \$255.6 million. The American Red Cross Tsunami Recovery Plan of Action (described below) sets forth a plan for the expenditure of the remainder of funds over the next five years.

The Plan of Action was developed based on our mission and core strengths, matched with the needs of tsunami survivors and the interests and capacities of in-country partners, particularly the affected Red Cross and Red Crescent Societies. As a member of the International Red Cross and Red Crescent Movement, we leverage the strengths, abilities, and resources of all National Societies responding in disaster-affected areas. This unified response targets priorities, avoids duplication of efforts, and ensures that donations are used most appropriately.

As outlined in the Plan of Action, funds are currently being spent in three major areas:

- 1) **Community Health and Disease Control:** These programs serve the health of families or prevent the spread of disease through programs such as immunization, maternal and child health, water and sanitation, and psycho-social projects.
- 2) **Community Restoration and Rebuilding:** These programs ensure that survivors have a safe place to live and can get back into productive jobs so that they are self-sufficient and can adequately support their families. These programs include shelters, community infrastructure, and income generating activities.
- 3) **Disaster Preparedness:** These programs support communities, households, and the Red Cross and Red Crescent National Societies in disaster planning and response and provide tracing services to families separated by disaster.

The following chart summarizes the financial information for the Tsunami Plan of Action that is available as of December 31, 2005:

	A	B=C+D	C	D	E	F=D+E	G=A-F
	Allocations	LOP Actual	FY05 Dec-Jun Actual	FY06 Jul-Dec Actual	FY06 Jan-Jun Est.	FY06 Jul-Jun Est.	FY07-FY10 Est.
\$ in millions							
<b>FY05 Emergency Relief Phase</b>							
Emergency Response	\$105.7	\$105.7	\$105.7				
Direct Support Costs	\$4.5	\$4.5	\$4.5				
Subtotal	\$110.2	\$110.2	\$110.2				
<b>5 Year Recovery Program FY06-FY10</b>							
Community Health & Disease Control	\$205.0	\$52.1		\$52.1	\$51.6	\$103.6	\$101.4
Community Restoration & Rebuilding	\$122.0	\$6.3		\$6.3	\$32.4	\$38.7	\$83.3
Disaster Preparedness	\$15.0	\$0.0		\$0.0	\$1.5	\$1.5	\$13.5
Direct Support Costs	\$26.7	\$0.7		\$0.7	\$0.9	\$1.6	\$25.2
*Remaining Funds to be Allocated	\$91.1						\$91.1
Subtotal	\$459.9	\$59.1	\$0.0	\$59.1	\$86.3	\$145.4	\$314.5
<b>TOTAL</b>	<b>\$570.1</b>	<b>\$169.3</b>	<b>\$110.2</b>	<b>\$59.1</b>	<b>\$86.3</b>	<b>\$145.4</b>	<b>\$314.5</b>

Fiscal Year = July - June

LOP = Life of Project

\* To be used for both recovery and emergency needs as they arise

In our work overseas, the Red Cross follows “The Code of Conduct for the International Red Cross and Red Crescent Movement and Non-Governmental Organisations (NGOS) in Disaster Relief.” One principle of this code is that “aid priorities are calculated on the basis of need alone.” The current sector allocations in the Plan of Action (health, community restoration, and disaster preparedness) were based upon our initial assessment of the needs. We will continue to revisit these allocations over the course of the program to ensure that they are appropriate. In addition, we are also committed to addressing emerging humanitarian needs, which may include responses to small-scale disasters in tsunami-affected areas.

As noted above, our timeline associated with completion of these recovery phase activities is five years, from June 2005 through June 2010. This timeframe should be regarded as a projection, since past experience has taught us that these estimates can contract or expand based on factors such as the availability of human and material resources for reconstruction efforts, legal issues within the countries of operation, level of coordination among agencies, and most importantly the level of involvement of survivors in the process of recovery. In the current environment of complex land title issues, poor logistics, ongoing or recently resolved civil strife and restrictive government policies, the pace of reconstruction can sometimes be delayed, and we will adapt our assessment and planning to ensure that reconstruction efforts are done responsibly, ensuring long-term benefits for the survivors and future generations. We have pledged to keep the public informed of our progress, including reporting on anticipated delays, the shortening of our timeline and financial updates. To this end, we have already published two reports on our Tsunami Recovery Program – at the six and twelve month anniversaries – published September

1, 2005 and December 21, 2005 respectively. We are providing you with copies of these reports as well as the Plan of Action referenced earlier as Attachment E, these reports are also available on our public website, [www.redcross.org](http://www.redcross.org).

The Tsunami Recovery Project is consistent with the practice of Red Cross in international operations, where funding is available, to work in both the immediate aftermath of an emergency as well as in the post-disaster recovery phase to expedite community recovery and reduce chronic vulnerabilities in affected communities. Examples of this include:

- **Hurricane Mitch, Central America (1998):** The Red Cross provided immediate relief of food, agricultural support, water purification, and emergency health programs. We also supported \$37 million of long-term recovery programs, carried out over five years, in agriculture, water and waste sanitation systems, disaster preparedness, and community health and education to help rebuild and strengthen affected communities.
- **Kosovo Crisis (1999):** After a significant emergency response, the Red Cross provided \$14 million to support a five-year program focusing on food, family tracing, health education and health worker training, water and sanitation system rehabilitation, training of mental health counselors, and capacity building of national Red Cross societies to respond to disaster.
- **Gujarat, India Earthquake (2001):** After spending \$2 million in the relief phase, the Red Cross programmed an additional \$14 million to support long-term recovery efforts in rebuilding community infrastructure, water collection and storage, sanitation, community health, and training a network of mental health counselors.

Providing both emergency services as well as long-term recovery programs as part of an international response is consistent with the Red Cross mission and Congressional Charter. Even after providing immediate emergency relief to tsunami survivors, the infrastructure and systems that support the basics of life—markets, health facilities, schools, agricultural systems, homes—remain in shambles. What took centuries to build and minutes to destroy will take years to rebuild.

***Question 4: Please state the amount raised from Katrina and also the purpose for which these funds will be spent; when the funds will be spent; and, finally, how these expenditures are in keeping with the Red Cross' role and mission.***

***Answer 4:*** Through December 29, 2005, the Red Cross has raised \$1.85 billion<sup>1</sup> in gifts and pledges designated specifically for Hurricanes Katrina, Rita and Wilma, and an additional \$136 million in contributions to the Disaster Relief Fund.<sup>2</sup>

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<sup>1</sup> We are providing you with figures current as of the end of December 2005. The Red Cross updates these figures as new information and data become available. Accordingly, we will provide the Committee on Finance with updated figures.

<sup>2</sup> The Disaster Relief Fund is used to provide and support disaster relief services for victims of domestic disaster. Because the cost to respond to Hurricane Wilma exceeded the amount of donations received specifically for

As of December 31, 2005, the Red Cross estimates that approximately \$1.77 billion<sup>3</sup> has been spent on Hurricanes Katrina, Rita and Wilma relief operations. Based on December 2005 information, the Red Cross estimates that expenditures will grow to \$2.12 billion on Hurricanes Katrina, Rita and Wilma relief operations. These funds have been and are being used to meet the critical needs of disaster victims, such as sheltering, feeding, counseling, health services and other emergency assistance which directly relate to the Red Cross' mission to deliver disaster assistance. These cost estimates are unaudited and do not include costs expected to be reimbursed under the FEMA contract for a hotel program and a pharmacy program, which we estimate have resulted in approximately \$265 million in expenses to date. A small portion of the funds raised, estimated at less than 6%, has been used to cover fundraising costs and other general management expenses, such as finance and accounting, associated with the Gulf Coast hurricane relief effort.

The Red Cross, through our network of local chapters, will also continue to provide essential services to hurricane survivors in addition to working with community groups to address longer-term needs. A two-year Hurricane Recovery Program has been established to assist client recovery through provision of case management services to clients with longer-term needs, health services, mental health services, recovery planning information and referral to available local, state, and federal resources. The Red Cross will assist with community recovery through participation with or convening of local groups able and interested in assisting in client and community recovery.

***Question 5: When you ask for funds for a specific purpose, how do you protect that designated account? Please provide a list of all your designated accounts - both fund balance and purpose. Do you use such designated funds for any other purpose? If so, please explain and provide details.***

***Answer 5:*** The Red Cross receives both unrestricted donations and contributions for specific purposes, and has an internal accounting system designed to ensure that all donations are credited and then applied in accordance with donor intent. Designated funds are used solely for the purposes for which they were contributed.

The key to honoring donor intent is to ensure that donations are credited in accordance with the wishes of the donors. After the American public responded so generously to the September 11 terrorist attacks, the Red Cross initiated efforts to educate donors about the American Red Cross Disaster Relief Fund and to institute a new system to ensure donations are directed as intended. This program of confirmation and acknowledgment is called Donor DIRECT – D(onor) I(ntent) RE(cognition), C(onfirmation) and T(rust).

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Hurricane Wilma, the Red Cross will use a significant portion of the Disaster Relief Fund monies to cover these costs.

<sup>3</sup> \$1.77 billion reflects only actual, recorded expenditures for the period.

The Donor DIRECT system includes a numbers of steps to ensure that contributions are applied in accordance with donor intent. To the extent possible, the Red Cross educates donors in advance about the donations options, such as by including information on our website about different donation programs. The Red Cross also confirms donors' intent in our acknowledgement letters, providing donors with the opportunity to request a change in the event of confusion or error. Finally, under the Donor DIRECT guidelines, the Red Cross monitors contributions to determine when sufficient funds have been raised to cover the anticipated cost of an operation, and notifies the public once sufficient funds have been raised to cover the anticipated cost of a relief effort.

The Red Cross maintains financial controls and processes to ensure that contributions are collected, processed, and managed consistently with our donors' intent. These general controls include:

- There is existing guidance for every Red Cross chapter and donations processing site in order to ensure the proper handling, processing and recording of donations. At the initiation of a national disaster response that is larger in scope (e.g., where multiple states or countries are affected), specific and extensive guidance is released for that particular disaster to ensure proper handling of donations.
- The public is provided with the address of an independently managed lockbox as the primary location for the receipt of donations.
- Annual financial audits are performed for the entire organization by our external auditors (KPMG LLP), as well as audits by the Department of the Army, U.S. Army Audit Agency and the Defense Contract Audit Agency.
- Over 600 local, external audits are conducted each year across the network of Red Cross chapters. Even the smallest chapters receive third-party financial reviews and Board oversight.
- The Red Cross internal audit department performs routine audits of field units and of the national headquarters donations process. In addition, the audit department may perform a site audit of contributions processing at selected chapters.
- A network of eight Service Area offices provide oversight and support to chapters ensuring that they properly report and remit all donor-restricted funds to the national headquarters.
- Red Cross national headquarters provides general and specific policy guidance to chapters on proper control and stewardship of funds.
- Annual reporting is made available to the public on the services delivered by the Red Cross and the sources and uses of Red Cross funds. The Red Cross makes public online annual reports, audited financial statements, and IRS Forms 990/990T submissions for the three most recent years at <http://www.redcross.org/pubs/>.

- If a misappropriation or fraud is detected, the organization takes immediate legal action to prosecute the offender and to seek full and complete restitution.

Information on our temporarily restricted net assets can be found on our 2005 Consolidated Financial Statements which is included as Attachment F and can also be found on our public website at <http://www.redcross.org/pubs/>.

### **C. Compensation**

We are compiling our response which will be forthcoming as previously agreed.

### **D. Internal Revenue Service Filings**

***Question 1: Please provide a copy of the Red Cross' most recent 990.***

***Answer 1:*** We have provided a copy of the Red Cross's most recent 990 for fiscal year 2004 covering July 1, 2003 to June 30, 2004.

***Question 2: Your Form 990 2003 indicates \$60 million in government grants. Please provide a detailed list of all grants and contracts (including reimbursement contracts) that the Red Cross has received from the Federal, state and local government since July 1, 2003. Specifically, the amount, the purpose of the funds and who granted/awarded the funds.***

***Answer 2:*** As a single, 501(c)(3) corporation, the Red Cross files one IRS Form 990 to cover all Red Cross corporate units, chapters, blood services regions and other units. Information captured on an IRS Form 990, Line 1c reflects the total amount of governmental grants (federal, state, and local) received by an organization. It does not include amounts of government contracts such as government cooperative agreements or cost reimbursed contracts. Therefore, the \$60 million to which you refer reflects only the total amount of governmental grants (federal, state, and local) received by the entire Red Cross organization in that fiscal year. Enclosed please find a breakdown by agency of the government contributions figure on the Red Cross IRS Form 990, Line 1c for fiscal year 2004. In addition, we are providing information for fiscal year 2005 (July 1, 2004 – June 30, 2005) and the first six months of fiscal year 2006 (July 1, 2005 – December 31, 2005).<sup>4</sup> These are enclosed as Attachment G. Please note that the figures for our fiscal year ended June 30, 2005 are preliminary figures and are unaudited at this time as are the figures provided for the six months ended December 31, 2005.

In addition, please find Schedule 2 of the Red Cross – National Sector's A-133 Audit for fiscal year 2004 (enclosed as Attachment H). Schedule 2 lists all federal grant programs, cooperative agreements and cost-reimbursed contracts for the national headquarters operation of the Red Cross only and it does not include state and local grant and contract activity. In addition, to the extent that any of our chartered units have federal, state or local grants or contracts, these contracts and grants are not reported in the Red Cross – National Sector A-133 Audit. Please note that the Red Cross has not yet issued its fiscal year 2005 A-133 Audit report.

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<sup>4</sup> Unlike the fiscal year 2004 and 2005 information, this preliminary information for the first six months of fiscal year 2006 does not include Chapter activity.

***Question 3: Please provide copies of Form 990-Ts for the last five years.***

***Answer 3:*** We have provided copies of the Red Cross's Form 990-Ts for the last five years.

***Question 4: Part IX lists Pathogen Removal and Diagnostic Technologies. Please provide a detailed discussion of this entity, a copy of all organizing documents, and tax returns for the last five years. For the last five years has any Red Cross employee, board member, etc. received any compensation from this organization?***

***Answer 4:*** Pathogen Removal and Diagnostic Technologies Inc. (PRDT) is a joint venture for profit company incorporated in November 2001. The joint venture is among the Red Cross, ProMetic Life Sciences Inc., ProMetic BioSciences Ltd., Dr. Robert G. Rohwer of the University of Maryland and Dr. Ruben G. Carbonell of North Carolina State University. PRDT provides for the collaborative use of technology with the goal of developing combined technology for the removal and detection of different pathogens from biological sources, such as blood and blood products. PRDT's initial focus is producing a filter designed for the removal of abnormal prion proteins from blood and blood components; if successful, such a filter could be used, for example, to remove prions that cause mad cow disease.

No employee or director of the Red Cross has received any compensation from PRDT. Further, no Red Cross employee or director holds any equity in PRDT. If the joint venture is successful, the Red Cross as an entity may realize financial benefit after recouping its expenses. In addition, under the Red Cross' intellectual property policies, individual Red Cross inventors may share in net revenue earned by the Red Cross. Although individual Red Cross inventors may realize financial benefit in the future, to date there has been no net revenue from which to pay any Red Cross inventor related to PRDT.

As you requested, we have provided copies of PRDT's organizing documents and its tax returns since its inception.

***Question 5: The 2003 Form 990 includes Form 5471- Information Return of U.S. Persons with Respect to Certain Foreign Corporations. It lists holdings with Boardman Indemnity, LTD based in Bermuda. Please explain why the Red Cross made this decision and please provide copies of all letters, analysis and memos that discuss this decision, particularly to house this wholly owned insurance subsidiary in Bermuda. In addition, does this company provide services only to Red Cross and its affiliates.***

***Answer 5:*** The Red Cross captive insurance company, Boardman Indemnity Ltd., commenced operation on July 1, 1988 as a single parent captive insuring the property and casualty risks of the parent. It was formed, when due to developments in the insurance market related to certain risk exposures of blood banking (e.g., AIDS, donor procurement, etc.), the Red Cross experienced difficulty obtaining insurance coverage through the conventional market. For more than forty years prior to 1987, the Red Cross was insured by Travelers Insurance Company. As a result of restricted renewal conditions (essentially through reduced capacity, exclusion of certain

required coverages, and increased premium costs) it was determined that the organization should explore the feasibility of forming a captive insurance company.

Through the captive insurance arrangement, the Red Cross anticipated that our primary insurance program would achieve the following benefits:

- Ability to maintain a disciplined funding mechanism for certain otherwise uninsurable liability risks and an ability to generate policies and certificates evidencing coverage;
- Ability to maintain (write back in) better coverage terms for other exposures which, although insurable, had been subjected to greater restrictions in years prior to the formation of the captive;
- Improved premium rates for excess liability, property insurance, and directors and officers liability coverage;
- Greater overall stability and independence from insurance market cycles; and
- Better and easier access to reinsurance markets.

The Red Cross has benefited from the formation of its captive insurance company in numerous ways, including those listed above. In addition, it has been able to return money in the form of dividends to its operating units because of better than expected returns on captive investments and better than expected outcomes on its losses. These monies (close to \$60 million since 1997) have gone back to Red Cross chapters and blood regions. Had the Red Cross been paying premiums to a conventional insurer, those investment earnings would have benefited the insurance company.

Boardman Indemnity Ltd. is a single parent captive insurer, domiciled in Bermuda, which provides coverage only to the Red Cross, including its chapters, blood regions, national testing laboratories and national headquarters operations.

The Red Cross looked at various possible domiciles including both domestic and off-shore jurisdictions. Previously provided to you [Bates Nos. SFC-AFC-D000725 to SFC-AFC-D000751] the Captive Insurance Company Proposal prepared by Fred. S. James & Co., Inc., explained its recommendation for the selection of Bermuda as the Red Cross captive domicile by saying, *"Our reasons for this selection are based on the facts that Bermuda is the oldest captive domicile and can boast of a very strong infrastructure and support services. Its reinsurance network is very extensive and it can easily access worldwide potential markets. Captives formed in Bermuda are unencumbered by regulatory agencies and enjoy total freedom in the areas of rates and forms, investment and exchange control. In addition, modern telephone and telex links exist permitting instant communications worldwide and the island is serviced by regular airline schedules to principal U.S. cities as well as Canada and London."* In summary, after careful consideration, the Board accepted the recommendation by Fred S. James & Co..

We have provided copies of all letters, analyses and memos that we have been able to locate discussing this decision. If we locate additional documents, we will provide them at that time.

**Question 6:** *Please provide for the last three years the amount of money that the Red Cross spends on government relations and public relations. Please provide copies of all contracts that the Red Cross has entered into for public relations.*

**Answer 6:**

### **Government Relations and Public Policy**

The Government Relations and Public Policy Department coordinates the Red Cross government affairs activities with the Federal Executive Branch, the Congress, and, in conjunction with the eight Service Area offices, coordinates the state and local government relations work of the 824 chapters and thirty six blood services regions. The Government Relations group also works with other corporate departments on partner relationships with major donors, not-for-profit sector organizations, other charities and non-profits, special interest and diversity groups, and many other entities. There are currently eight employees in the Government Relations group at national headquarters handling the government relations work.<sup>5</sup>

The Red Cross is required to report our total lobbying expenses as an item in the IRS Form 990 on an annual basis. As a single, 501(c)(3) corporation, the Red Cross files one IRS Form 990 to cover all Red Cross corporate units, chapters, blood services regions and other units. The lobbying expenses reported on the Form 990 cover the Red Cross fiscal year (which runs from July 1 to June 30) and represent both National Headquarters and the chartered units' state government relations programs. Please find below the IRS 990 Information for Lobbying Activity from 2001 through 2003, Schedule A, Part VI-B.

- 2001 Form 990 (July 1, 2001 to June 30, 2002): \$457,343
- 2002 Form 990 (July 1, 2002 to June 30, 2003): \$571,200
- 2003 Form 990 (July 1, 2003 to June 30, 2004): \$538,715

### **Public Relations**

The Red Cross headquarters currently operates an in-house department with sixty four people<sup>6</sup> to service the internal and external communication and marketing needs of our various lines of service and departments, such as Biomedical Services, Products, Health & Safety, International Services, Diversity, Development, Preparedness, and Response. The department also is responsible for the organization's ancillary requirements for internal and external websites, meeting planning, publications, advertising, and market research. The department's annual payroll is about \$6.4 million in salary and benefits.

As a rule, Red Cross "public relations" activities are handled in-house by paid staff. As an additional way to get out our message about the lifesaving mission of the Red Cross to a broad national audience, the Red Cross from time to time uses the services of public relations firms.

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<sup>5</sup> In addition, Red Cross has staff in the Service Areas and the field units (e.g., a Chapter Executive Director) that among other duties have responsibility for local or state government relations work.

<sup>6</sup> In addition, the Red Cross has staff in the Service Areas and field units that among other duties have responsibility for communication and marketing functions.

Over the past three years, the Red Cross has entered into several contracts whereby public relations firms assisted the Red Cross in seeking out opportunities to integrate the Red Cross's message into popular television, film, and other mainstream media outlets; in establishing outreach to celebrities to become involved in delivering Red Cross message; and in furthering a cooperative program between the Red Cross and the State of California to advance individual and family disaster preparedness. These public relations firms are Public Strategies, Inc.; Berenson Communications; Bragman Nyman & Capparelli; Norm Marshall & Associates; and Paul Freundlich Associates.

During disasters, additional people needed for communication and marketing purposes are drawn from field units and from the ranks of volunteers. Typically, some contract help is used for short periods and for narrow purposes, such as on-site photography. For Hurricanes Katrina, Rita, and Wilma, our public relations needs outstripped our resources and required us to hire Fleishman-Hillard and Porter-Novelli for such tasks as press conference arrangement and interview booking.

The following are the costs associated with the above-referenced public relations contracts:

- Fiscal Year 2004 (July 1, 2003 to June 30, 2004): \$190,304
- Fiscal Year 2005 (July 1, 2004 to June 30, 2005): \$231,046
- Fiscal Year 2006 (July 1, 2005 to December 31, 2005): \$145,692

We have provided copies of all of the above referenced contracts that the Red Cross has entered into for public relations.

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